Twenty-seventh Annual Report

CAROLINA, CLINCHFIELD AND OHIO RAILWAY

FOR THE YEAR ENDED
December 31, 1937

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CAROLINA, CLINCHFIELD AND OHIO RAILWAY

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NEW YORK OFFICE — 1 East 57th Street

Stock Transfer Agent
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THE NEW YORK TRUST COMPANY
100 Broadway, New York.

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BANKERS TRUST COMPANY
16 Wall Street, New York.

GIFT REQUEST
AUG 3 1938

TWENTY-SEVENTH ANNUAL REPORT

NEW YORK, April 1, 1938.

To the Stockholders of

CAROLINA, CLINCHFIELD AND OHIO RAILWAY:

The Twenty-seventh Annual Report of the Board of Directors, for the year ended December 31, 1937, is submitted herewith:

Under an indenture dated October 16, 1924, the properties of Carolina, Clinchfield and Ohio Railway and its subsidiaries were leased to Atlantic Coast Line Railroad Company and Louisville and Nashville Railroad Company for a period of 999 years from May 11, 1923, at an annual money rental as follows:

3% on $25,000,000 Capital Stock, or $750,000 annually, for three years from January 1, 1925.

4% on $25,000,000 Capital Stock, or $1,000,000 annually, for ten years from January 1, 1928.

5% on $25,000,000 Capital Stock, or $1,250,000 annually, from January 1, 1938, to May 10, 2922.

In addition to the foregoing money rental, the Lessees agree to pay the interest charges on the outstanding funded debt of and guaranteed by the Carolina, Clinchfield and Ohio Railway and on any bonds that may be issued to refund the same.

The Lease also provides that the Lessees will pay all charges and other expenses in connection with the payment of interest, shall pay all taxes upon the franchises and leased property and the income thereof, and shall also pay a sum equal to the annual corporate expenses of the Lessors not in excess of $12,000 per annum. All rental payments under the Lease are the joint and several obligations of the Atlantic Coast Line Railroad Company and the Louisville and Nashville Railroad Company.

The Lease expressly provides that in case of the issuance of any additional capital stock of the Railway, it shall be stock of a class which has no right to participate in any dividends declared from the money rentals above mentioned, which money rentals have been fixed at the amount specified for the purpose of enabling the Railway to pay dividends upon the $25,000,000 par value capital stock at the rates and for the periods above mentioned, and are not intended to be used for any other purposes whatsoever. In consideration of these money rentals, the stockholder agrees with the Lessees that he will vote his stock in such manner as is necessary to carry out the provisions of the Lease from time to time.

The payment of the above-mentioned annual money rental is to be made in equal quarterly instalments beginning April 1, 1925, to enable the Lessor to pay dividends upon its $25,000,000 Capital Stock at the rates specified.

Possession of the leased properties was delivered to the Lessees on December 1, 1924, and the first payment of the money rental under the Lease was made to the Lessors on April 1, 1925. On April 10, 1925, the first dividend of 75 cents per share, payable out of said money rental, was paid by this Company to the record holders of the $25,000,000 par value of outstanding Capital Stock.

The making of the aforesaid Lease was authorized by the Interstate Commerce Commission on June 3, 1924 (Finance Docket No. 3131).

Quarterly dividends, at the rate of four per cent. per annum on the Company's $25,000,000 Capital Stock, were paid during the year 1937 out of the money rental received from the Lessees.

At December 31, 1937, there was due the Lessors, on balance for leased property retired by the Lessees, the net amount of $1,405,600.23, which the Lessees paid and satisfied by returning to the Lessors, for cancellation, $1,389,000.00, principal amount, of Carolina, Clinchfield and Ohio Railway First and Consolidated Mortgage 5% Bonds, Series B, and by applying $16,600.23 as credit on $929,486.79 promissory notes of Carolina, Clinchfield and Ohio Railway, held by the Lessees. The bonds and notes referred to had been issued by Carolina, Clinchfield and Ohio Railway to the Lessees, under Articles Seventh and Eighth of the Lease, to reimburse them for expenditures made in paying maturing equipment trust obligations and for certain additions and betterments to the leased property.

Due to the dissolution of the Lick Creek and Lake Erie Railroad Company, certificates for 1,000 shares of its stock (nominal book value $1.00), held by the Lessees under the Lease, were during the year surrendered to Lick Creek and Lake Erie Railroad Company and cancelled.

Submitted as a part of this report are a statement of mileage, a summary of the operation of the leased properties, a copy of the consolidated balance sheet and a statement of the funded debt.

For the Board of Directors,

JOHN B. DENNIS,
President.

MILEAGE

The mileage owned by Carolina, Clinchfield and Ohio Railway and its subsidiaries, Carolina, Clinchfield and Ohio Railway of South Carolina and Clinchfield Northern Railway of Kentucky, is as follows:

	Miles
Carolina, Clinchfield and Ohio Railway:	
Main line: Ky.-Va. State Line to N. C.-S. C. State Line....	255.97
Branch lines: Carbo, Va., to Wilder, Va.....	8.40
Bostic Yard, N. C., to Junction S. A. L. Ry...	.79
Carolina, Clinchfield and Ohio Railway of South Carolina:	
Main line: N. C.-S. C. State Line to Spartanburg, S. C.....	18.09
Clinchfield Northern Railway of Kentucky:	
Main line: Elkhorn City, Ky., to Ky.-Va. State Line.....	2.79
Total.....	286.04

The foregoing mileage since December 1, 1924, has been operated by the said Lessees under the name of "Clinchfield Railroad Company."

In addition to the foregoing mileage, the Lessees also operate the following mileage under trackage rights formerly held by Carolina, Clinchfield and Ohio Railway System:

Chesapeake and Ohio Railway, Elkhorn City, Ky.....	.13
Norfolk & Western Railway, Carbo, Va., to St. Paul, Va.....	8.45
Southern Railway: Frisco, Tenn., to Albert Yard, Va.....	13.60
" " Spartanburg, S. C.	.09
Total.....	22.27

This makes the total mileage operated by the Lessees, under the Lease, 308.31 miles.

RESULTS OF OPERATION BY LESSEES

The following is a summary of the results of operation of the leased properties, for the year ended December 31, 1937, as reported by the Lessees:

Railway operating revenues		$6,880,008.57
Railway operating expenses		3,638,982.05
Net revenue from railway operations		$3,241,026.52
Railway tax accruals		467,919.57
Railway operating income		$2,773,106.95
Equipment rents	$446,505.87	
Joint facility rents ..... *Dr.*	*12,474.60*	434,031.27
Net railway operating income		$3,207,138.22
Non-operating income		20,657.86
Gross income		$3,227,796.08
Deductions from gross income:		
Lessor's fixed charges	$1,353,350.00	
Dividend rental	1,000,000.00	
Lessor's income and capital stock taxes	261,826.86	
Miscellaneous rental	19,724.24	
Total rental under Lease	$2,634,901.10	
Other deductions	36,022.52	2,670,923.62
Net Income		$ 556,872.46

CAROLINA, CLINCHFIELD AND OHIO RAILWAY

(Including Subsidiary Lines, C. C. & O. Ry. of S. C. and Clinchfield Northern Ry. of Kentucky)

CONSOLIDATED GENERAL BALANCE SHEET

DECEMBER 31, 1937

ASSETS

Investment in road and equipment	$66,878,879.07
Deposits in lieu of mortgaged property sold	311,929.64
Miscellaneous physical property	64,388.87
Cash	83.93
Rents receivable	250,000.00
Working fund advances	100.00
Other deferred assets	3,094,873.92
Total	$70,600,255.43

LIABILITIES

Capital stock	$25,000,000.00
Funded debt	24,078,000.00
Other obligations	912,886.56
Unmatured dividends declared	250,000.00
Other deferred liabilities	452,940.00
Accrued depreciation—Equipment	2,268,057.01
Additions to property through income and surplus	70,991.90
Profit and loss—Credit balance	17,567,379.96
Total	$70,600,255.43

STATEMENT OF FUNDED DEBT

DECEMBER 31, 1937

Name of Security	Amount Outstanding	Date of Maturity	Rate Per Annum	Interest Payable
First Mortgage Thirty-Year Bonds .....(*)	$14,150,000	June 1, 1938	5%	June and December
First and Consolidated Mortgage Bonds, Series A	8,000,000	Dec. 15, 1952	6%	June 15 and Dec. 15
First and Consolidated Mortgage Bonds, Series B	1,928,000	April 1, 1956	5%	April and October
Total	$24,078,000			

(*) Does not include $850,000 held in treasury.